



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES AND  
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES**

**April 5, 2000**

**EDWARD B. HATCHETT, JR.  
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## **EXECUTIVE SUMMARY**

### **MARTIN COUNTY DARRIEL YOUNG, SHERIFF SHERIFF'S SETTLEMENT - 1999 TAXES & UNMINED COAL TAXES APRIL 5, 2000**

The Martin County 1999 Tax Audit revealed that the Sheriff's deposits with the bank were underpledged by \$484,988 on December 14, 1999, and the Sheriff did not have a county revenue bond. During the exit conference , the Sheriff agreed to collect \$344 due him from the taxing districts in accordance with the audited financial statement. The Sheriff provided accurate records and was very cooperative with us during the audit engagement.



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## Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

Kevin Flanery, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Lon E. Lafferty, Martin County Judge/Executive

Honorable Darriel Young, Martin County Sheriff

Members of the Martin County Fiscal Court

### Independent Auditor's Report

We have audited the Martin County Sheriff's Settlement - 1999 Taxes as of April 5, 2000 and the Sheriff's Settlement - 1999 Unmined Coal Taxes as of April 26, 2000. These tax settlements are the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Martin County Sheriff's taxes charged, credited, and paid as of April 5, 2000, and April 26, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$484,988 And Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Obtain A County Revenue Bond In Order To Adequately Protect The County From Potential Loss

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Kevin Flanery, Secretary  
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Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated October 11, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 11, 2000



MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES

April 5, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 159,254	\$ 180,748	\$ 673,020	\$ 204,952
Tangible Personal Property	92,227	106,205	350,174	352,585
Intangible Personal Property				59,335
Additional	2,010	2,132	8,485	2,587
Undeveloped Oil and Gas	58,165	61,707	245,806	74,855
Increased Through Erroneous Assessments	949	1,007	4,011	1,222
Penalties	2,183	2,492	9,168	3,060
Adjusted to Sheriff's Receipt	4	12	(10)	(3)
Gross Chargeable to Sheriff	<u>\$ 314,792</u>	<u>\$ 354,303</u>	<u>\$ 1,290,654</u>	<u>\$ 698,593</u>
<u>Credits</u>				
Discounts	\$ 4,554	\$ 5,131	\$ 18,484	\$ 11,318
Exonerations	5,792	6,289	24,475	12,276
Delinquents:				
Real Estate	20,708	22,780	87,512	26,650
Tangible Personal Property	1,906	2,196	7,240	6,716
Intangible Personal Property				29
Total Credits	<u>\$ 32,960</u>	<u>\$ 36,396</u>	<u>\$ 137,711</u>	<u>\$ 56,989</u>
Net Tax Yield	\$ 281,832	\$ 317,907	\$ 1,152,943	\$ 641,604
Less: Commissions *	<u>12,265</u>	<u>13,511</u>	<u>46,118</u>	<u>27,556</u>
Net Taxes Due	\$ 269,567	\$ 304,396	\$ 1,106,825	\$ 614,048
Taxes Paid	269,520	304,342	1,106,656	614,028
Refunds (Current and Prior Year)	<u>84</u>	<u>89</u>	<u>353</u>	<u>108</u>
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (37)</u>	<u>\$ (35)</u>	<u>\$ (184)</u>	<u>\$ (88)</u>

\* and \*\* See Page 4

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES  
April 5, 2000  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,231,343
4% on	\$	1,152,943

\*\* Special Taxing Districts:

Library District	\$	(6)
Health District		(10)
Extension District		<u>(19)</u>
Refunds Due Sheriff	\$	<u><u>(35)</u></u>

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES

April 26, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 71,477	\$ 75,828	\$ 302,070	\$ 91,988
Penalties	41	43	172	52
Gross Chargeable to Sheriff	<u>\$ 71,518</u>	<u>\$ 75,871</u>	<u>\$ 302,242</u>	<u>\$ 92,040</u>
<u>Credits</u>				
Discounts	\$ 1,307	\$ 1,387	\$ 5,525	\$ 1,682
Exonerations	1,512	1,604	6,390	1,946
Delinquents	514	545	2,174	662
Total Credits	<u>\$ 3,333</u>	<u>\$ 3,536</u>	<u>\$ 14,089</u>	<u>\$ 4,290</u>
Net Tax Yield	\$ 68,185	\$ 72,335	\$ 288,153	\$ 87,750
Less: Commissions *	<u>2,898</u>	<u>3,074</u>	<u>11,526</u>	<u>3,729</u>
Net Taxes Due	\$ 65,287	\$ 69,261	\$ 276,627	\$ 84,021
Taxes Paid	<u>65,287</u>	<u>69,261</u>	<u>276,627</u>	<u>84,021</u>
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

4.25% on	\$	228,270
4% on	\$	288,153

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

April 5, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of April 5, 1999, the bank balances were fully insured or collateralized at a 100% level with collateral of either

MARTIN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 April 5, 2000  
 (Continued)

Note 2. Deposits (Continued)

pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of December 14, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$484,988 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 14, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,000,000
Uncollateralized and uninsured	<u>484,988</u>
Total	<u><u>\$ 1,484,988</u></u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 1999 through April 5, 2000.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 23, 1999 through April 26, 2000.

Note 4. Interest Income

The Martin County Sheriff earned \$5,497 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

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## COMMENTS AND RECOMMENDATIONS





MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
COMMENTS AND RECOMMENDATIONS

April 5, 2000

STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$484,988 And Entered Into A Written Agreement To Protect Deposits
- 

On December 14, 1999, \$484,988 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*In the past I have talked to the bank about increasing our pledges. I will now talk to them about entering into a written agreement.*

- 2) The Sheriff Should Obtain A County Revenue Bond In Order To Adequately Protect The County From Potential Loss
- 

As of the audit date, the Sheriff had not obtained a County Revenue Bond as required by KRS 134.250. According to KRS 134.250, this bond shall be approved by order of the Fiscal Court, and when approved shall be recorded by the Fiscal Court in its minutes and filed by the Fiscal Court with the County Clerk. We recommend that the Sheriff obtain a County Revenue Bond sufficient to protect the county from potential loss.

*Sheriff's Response:*

*We will get prices for bond and present to the fiscal court again.*

PRIOR YEAR:

- (1) The Sheriff Should Have Required Depository Institutions To Pledge Additional Collateral Of \$1,246,002 As Collateral And Entered Into A Written Agreement To Protect Deposits
- (2) The Sheriff Should Obtain A County Revenue Bond In Order To Adequately Protect The County From Potential Loss

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable Lon E. Lafferty, Martin County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Martin County Sheriff's Settlement - 1999 Taxes as of April 5, 2000, and Sheriff's Settlement - 1999 Unmined Coal Taxes as of April 26, 2000, and have issued our report thereon dated October 11, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Lon E. Lafferty, Martin County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 11, 2000

